

THE IBERIAN STRATEGY OBSERVER

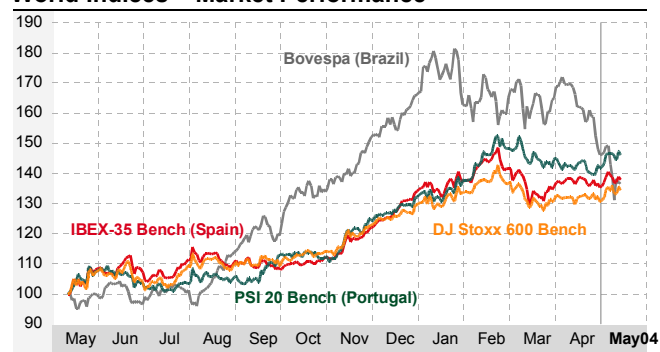
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World Indices – Market Performance



Source: JCF.

Asset Class Monitor

	Closing May 13	-1W	-1M	QTD	YTD
DJ Stoxx 600	235.5	-1.5	-3.0	-0.4	2.7
S&P 500	1,096.4	-1.6	-2.8	-2.6	-1.4
10Y Euro bond yield	4.33	2.9	4.9	11.1	1.4
10Y US bond yield	4.85	2.0	11.5	26.9	14.6
3M Euro interest rates	2.08	0.9	2.7	6.9	-1.5
3M US interest rates	0.99	-5.9	4.2	5.3	7.7
€/US\$	1.18	-0.7	-1.1	-3.9	-6.0
Brent crude oil (US\$)	38.6	3.6	18.0	20.5	28.0
CRB (US\$)	344.2	1.5	6.8	2.2	-1.2

Source: Bloomberg.

SCH Universe Valuation

	P/E		EV/EBITDA		3Y CAGR		GDY P/BV	
	04F	05F	04F	05F	EPS	EBITDA	04F	05F
CAC40	14.8	13.0	7.5	6.9	15.7	4.4	2.6	2.5
DAX30	14.1	12.0	6.1	5.4	32.0	4.7	2.6	2.0
MIB30	15.7	14.6	6.2	5.8	21.6	5.9	4.4	2.6
PSI20	16.0	13.2	7.8	7.2	22.1	7.9	3.0	2.1
IBEX35	15.3	13.8	7.7	6.8	18.8	7.1	3.2	3.1
DJ Stoxx 600	14.5	13.1	6.2	6.1	15.0	6.9	3.1	2.8
DJ Stoxx 50	14.2	12.8	8.0	7.3	15.6	4.5	3.3	2.7
DJ Euro Stoxx 50	13.7	12.3	6.5	6.0	21.4	4.3	3.3	2.4
Ib Cap Goods	11.6	9.6	5.8	5.2	51.1	12.6	3.3	1.5
Ib Construction	14.6	12.9	8.5	7.7	5.6	13.8	2.1	1.9
Ib Cons Goods	17.0	14.3	7.7	6.8	25.3	12.0	1.9	3.5
Ib Cons Serv	18.5	15.7	11.3	10.7	11.1	7.9	1.4	2.7
Ib Financials	14.0	11.9	NA	NA	16.5	NA	3.2	2.0
Ib Oil & Gas	11.9	11.4	5.8	5.6	-3.2	5.1	3.3	1.6
Ib TNTs	23.0	19.0	7.3	6.6	-184	8.5	2.6	3.8
Ib Utilities	12.5	11.1	7.9	7.3	9.8	5.7	4.5	1.6

Source: Bloomberg, JCF and SCH Bolsa estimates and forecasts.

Strategy Highlights

There are some minor changes in our *Latam Strictly Macro*, we would highlight:

- The slight change in our GDP estimates for the region due mainly to Colombia.
- The higher inflation figures after the revisions in Brazil, Colombia and Venezuela.
- New MXN/USD exchange rates of 11.50 (previously 11.30) for 2004E and 11.80 (previously 11.50) for 2005F.

Hot Spots

- We have upgraded **Amadeus** to Buy from Underweight.
- We see a good buying opportunity in **Unión Fenosa**.
- We reinforce our bullish view on **Sogecable** after a recent trip with management.
- The upcoming IBEX35 revision should confirm the inclusion of **Antena 3** and the exclusion of **Metrovacesa**, **Zeltia** or **Sacyr-Vallehermoso**.

Relative Market Performance

	Closing May 13	-1W	-1M	QTD	YTD
CAC40	3,614.2	-1.1	-4.3	-0.3	1.7
DAX30	3,824.9	-2.2	-6.1	-0.8	-3.5
MIB30	27,584.0	-1.0	-3.6	0.9	3.3
PSI20	7,325.9	-2.8	-4.5	-2.8	8.6
IBEX35	7,866.4	-3.1	-6.8	-1.9	1.7
DJ Stoxx 600	235.5	-1.5	-4.5	-0.4	2.7
DJ Stoxx 50	2,682.7	-1.4	-3.5	0.7	0.8
DJ Euro Stoxx 50	2,712.5	-1.9	-6.1	-2.7	-1.7
Ib Cap Goods	NA	-2.8	-3.4	-2.4	5.5
Ib Construction	NA	-3.6	-2.1	0.0	6.6
Ib Cons Goods	NA	0.3	-2.7	-1.6	9.1
Ib Cons Serv	NA	-2.6	-3.8	-0.3	10.4
Ib Financials	NA	-2.7	-5.4	-2.1	-3.1
Ib Oil & Gas	NA	-3.8	-4.7	-1.0	6.1
Ib TNTs	NA	-4.8	-7.6	-3.0	3.9
Ib Utilities	NA	-1.9	-3.4	-0.8	3.6

Source: Bloomberg.

SECTOR STRATEGY AT A GLANCE

Iberia – Sector Strategy at a Glance

Sector	Index Weighting	SCHB Stance		Comments	Preferred Stocks
		Tactical	Strategic		
Banks	27.9%	↓	↔	Latam risks have temporarily been put aside. However, the large Spanish banks' stretched valuations limit their upside potential. We find better value among the Portuguese banks – due to Portugal's expected economic recovery and earnings upgrades – and the Spanish pure domestic players. In the case of a sustained market recovery, high-beta stocks should outperform.	BPI, B. Popular
Capital Goods	5.1%	↑	↑	The investment cycle is bottoming out, although few signs of a strong recovery in capital investments are evident. Limited pricing power and lacklustre demand have been offset by much lower unit costs, thanks to more efficient new capacity and restructuring. We prefer stocks with exposure to the more resilient services business.	Arcelor, Gamesa, ENCE
Construction	4.0%	↑	↑	The buoyant construction cycle in Spain seems to be never-ending, in stark contrast to Portuguese companies, which are being hit by restrictions in civil works. Diversification in the services and concessions areas should provide stability in the long run. M&A activity should continue to offer some excitement in the sector.	Ferrovial, ACS
Consumer Goods	5.9%	↑	↑	The attractive Spanish winery sector is a good opportunity to play above-average inflation and exposure to strong domestic demand. However, the late cyclical profiles of some segments (non-food retail) could cause disappointment in 2003E. Tobacco should be a safe haven.	Barón de Ley
Financial Services	0.9%	↓	↓	Cautious management teams at southern European insurers offer a degree of safety in a sector penalised by the sharp fall in the equity markets. The current limited discount to SoP valuations gives limited upside to those holding companies unable to show a credible investment track record.	Corp. Mapfre
Oil & Gas	9.2%	↑	↑	Stable (and high) oil prices and the improving Latam situation combine to offer a strong case to be bullish on the Iberian oil sector. In gas, potential M&A moves are likely to put selling pressure on stocks.	Repsol YPF
Services	7.6%	↓	↓	Despite being leveraged to the cycle's upturn, the leisure industry should reveal low pricing power due to excess capacity. Real estate might suffer from the perception that real estate values are peaking and from the hangover from M&A activity. Some service segments offer long-term growth (security).	Brisa
TMTs	29.0%	↑	↑	Telecoms continue their de-leveraging process, disposing of non-core activities and focusing on 'back-to-basics' strategies after the Internet hype. Latam exposure and generous shareholder remuneration policies should provide further upside in the short term. Although we see a late recovery in the IT cycle, underdevelopment in southern Europe should give some relief.	TEM, Indra
Utilities	10.5%	↓	↔	Advances in 'integration strategies' and financial de-leveraging are the basis for long-term outperformance. However, uncertainty regarding the implementation and effects of the EU's new Emissions Trading Scheme should be a major issue in 2004F. M&A activity in the sector has proved difficult and is unlikely to be a catalyst.	Endesa, Unión Fenosa

Source: Santander Central Hispano Bolsa estimates.

THE IBERIAN MACRO OBSERVER

Spanish Productivity (Part 2)

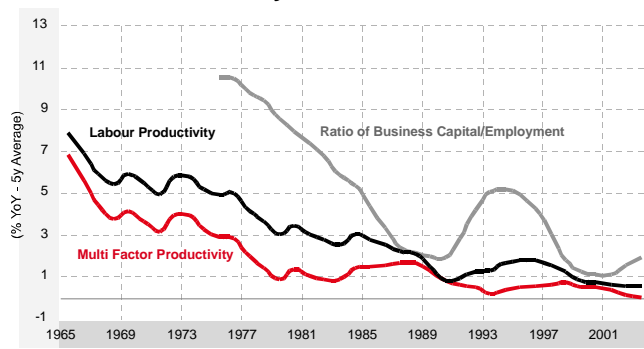
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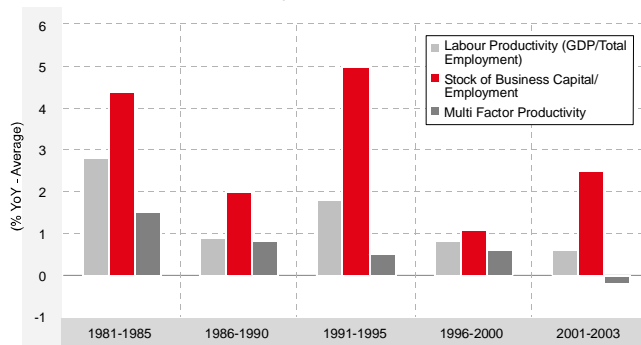
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Spain – Ratio of Business Capital / Employment vs MFP and Labour Productivity



Source: BoS, AMECO, FUNCAS, OECD and SCH Bolsa.

Spain – Ratio of Business Capital / Employment vs MFP and Labour Productivity



Source: BoS, AMECO, FUNCAS, OECD and SCH Bolsa.

Things to Watch during the Week

In the US:

- (1) The housing market should start decelerating in April.
- (2) The Empire manufacturing index could fall slightly in May.
- (3) The Philadelphia Fed index could fall.
- (4) Leading indicators should rise slightly in April.

In the Euro Zone:

- (1) German IPI and factory orders could be revised upwards.
- (2) The ZEW survey should go up in May.
- (3) Euro zone CPI to reflect higher oil prices and weaker euro.
- (4) Euro zone trade balance to improve in March.
- (5) Italian consumer confidence should go up in May.

■ We now believe the Fed will begin hiking rates in June 2004. We expect it to lift rates by 100bp in 2004E and by another 175bp in 2005F, leaving the Fed funds rate at 3.75% in December 2005F. Such a move would leave the Fed with a nearly 'neutral' stance at the end of 2005F, with real Fed funds at 1.68% from -0.36% in 2Q04E.

■ In the US, retail sales were slightly weaker than expected, but still consistent with private consumption growth of around 3.0% in 2Q04E. Headline producer prices rose sharply (0.7% MoM), but the rise in the core index was more modest (0.2% MoM). The trade balance deficit surprised on the upside, driven mainly by the increase in oil prices, although the fact is that the strength of internal demand in the US is keeping import growth rates at high levels.

■ In the Euro zone, preliminary 1Q04 GDP data surprised on the upside. In Spain, the economy grew 0.6% QoQ and German GDP rose 0.4% QoQ. French GDP growth was 0.8% QoQ and Italian GDP advanced 0.4% QoQ. Combined Euro zone GDP increased 0.6% QoQ. These numbers are slightly better than our estimate of Euro zone 1Q04 GDP growth of 0.5% QoQ.

■ In the *Macro Corner*, we include the second part of the Spanish productivity study initiated two weeks ago. The main conclusions for future balanced growth in Spain are: (1) productivity needs to rise; (2) this should be done through an increase in MFP (multifactor productivity); and (3) Spain needs to focus on R&D investment and in human capital (education). In both, Spain is still far behind European standards.

Macro Data Published Last Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast	Actual
TUESDAY	8:00	Germany	Current Account	Mar	5.0bnr	7.0bn	11.3bn
11-May	8:00	Germany	Trade Balance	Mar	12.1bnr	12.3bn	16.5bn
	8:00	Germany	Exports (m)	Mar	-2.6r	1.1	0.8
	8:00	Germany	Imports (m)	Mar	1.2r	0.8	-3.1
	8:45	France	Industrial Production (m/y)	Mar	1.2r/0.9	0.4/1.5	0.1/1.2
	8:45	France	Manufacturing Production (m/y)	Mar	1.1r/1.1r	0.3/1.4	-0.3/0.2
WEDNESDAY	8:00	Germany	CPI (m/y)	Apr F	0.3/1.1	-	0.3/1.6
12-May	8:00	Germany	Wholesale Price Index (m/y)	Apr	1.0r/1.3r	0.4/2.4	2.4/0.4
	8:45	France	Trade Balance	Mar	-73mn	200mn	827mn
	8:45	France	GDP (q)	1Q E	0.6r	0.5	0.8
	0:30	US	ABC Consumer Confidence	May 9	-11	-	-13
	13:00	US	MBA Mortgage Applications	May 7	4.4	-	-5.0
	14:30	US	Trade Balance	Mar	-42.1bn	-42.7bn	-46.0bn
	14:30	US	Import Price Index (m/y)	Apr	0.8r/1.1	0.4/-	0.2/4.6
	20:00	US	Monthly Budget Statement	Apr	51.1bn	25.0bn	17.6bn
THURSDAY	8:00	Germany	GDP (sa/nsa) (q/y)	1Q 1	0.3/0.2	0.3/1.1	0.4/1.5
13-May	8:45	France	CPI (m/y)	Apr P	0.4/1.7	0.2/2.1	0.3/2.4
	9:30	Italy	Industrial Production (sa/nsa) (m/y)	Mar	-0.1/1.2r	0.2/0.9	-0.4/4.8
	10:00	Euro Zone	ECB to Release May Monthly Report	-	-	-	-
	10:30	Italy	GDP (sa/wda) (q/y)	1Q P	0.0/0.1	0.2/0.5	0.4/0.8
	14:30	US	PPI (m/y)	Apr	0.5/1.4	0.2/-	0.7/3.7
	14:30	US	PPI Ex Food & Energy (m/y)	Apr	0.2/0.7	0.3/-	0.2/1.5
	14:30	US	Retail Sales	Apr	2.0r	-0.2	-0.5
	14:30	US	Retail Sales Less Autos	Apr	1.8r	-0.2	-0.1
	14:30	US	Initial Jobless Claims	May 8	318kr	325k	331k
	14:30	US	Continuing Claims	May 1	2,921kr	2,900k	2,974k
FRIDAY	8:45	France	Non-farm Payrolls (q)	1Q P	0.3	0.5	0.8
14-May	8:45	France	Wages (q)	1Q P	0.2	0.1	-0.1
	9:00	Spain	CPI (m/y)	Apr	0.7/2.1	1.3/2.6	1.4/2.7
	9:30	Italy	CPI (Nic incl Tobacco) (m/y)	Apr F	0.3/2.3	-	0.2/2.3
	11:00	Euro Zone	GDP sa (m/y)	1Q E	0.4/0.6r	0.4/1.0	0.6/1.3
	11:00	Euro Zone	Eur. Com. Publishes 2Q & 3Q GDP Forecasts	-	-	-	-
	14:30	US	CPI (m/y)	Apr	0.5/1.7	0.3/2.4	-
	14:30	US	CPI Ex Food & Energy (m/y)	Apr	0.4/1.6	0.2/1.7	-
	14:30	US	Business Inventories	Mar	0.7	0.5	-
	15:15	US	Industrial Production	Apr	-0.2	0.5	-
	15:15	US	Capacity Utilization	Apr	76.5	76.7	-

Macro Data To Be Published This Week

Day	Time*	Country	Indicator/Event	Period	Reference Data	Forecast
DURING THE WEEK	18-19	Germany	PPI (m/y)	Apr	0.6/0.3	0.4/0.8
	18-29	Germany	Factory Orders (BBK) (m/y)	Mar F	0.5/-	-
	18-29	Germany	Industrial Production (m/y)	Mar F	-0.4/1.9	-
MONDAY	14:30	US	Empire Manufacturing	May	36.05	34.80
17-May	19:00	US	NAHB Housing Market Index	May	69	69
TUESDAY	11:00	Euro Zone	CPI (m/y)	Apr	0.7/1.7	0.4/2.0
18-May	11:00	Euro Zone	Industrial Production sa/wda (m/y)	Mar	0.1/0.6	-0.5/0.5
	11:00	Germany	Zew Survey (Current Situation)	May	-72.5	-70.9
	11:00	Germany	Zew Survey (Economic Sentiment)	May	49.7	49.5
	14:30	US	Housing Starts	Apr	2,007k	2,000k
	14:30	US	Building Permits	Apr	1,976kr	1,946k
WEDNESDAY	8:45	France	GDP (q/y)	1Q P	-	0.8/1.7
19-May	9:30	Italy	Trade Balance (total)	Mar	-788mn	700mn
	9:30	Italy	Trade Balance EU	Mar	-802mn	-600mn
	11:00	Euro Zone	Trade Balance	Mar	5,433mn	6,900mn
	0:30	US	ABC Consumer Confidence	May 16	-13	-
	13:00	US	MBA Mortgage Applications	May 14	-5.0	-
THURSDAY	9:00	Spain	Factory Orders (y)	Mar	7.2	-
20-May	9:30	Italy	Consumer Confidence Ind sa/nsa	May	101.7/101.7	102.0/102.5
	9:30	Italy	Industrial Orders (m/y)	Mar	4.1/3.5	-1.0/4.6
	9:30	Italy	Industrial Sales sa/nsa (m/y)	Mar	2.4/1.7	0.1/1.4
	14:30	US	Initial Jobless Claims	May 15	331k	328k
	14:30	US	Continuing Claims	May 8	2,974k	-
	16:00	US	Leading Indicators	Apr	0.3	0.2
	18:00	US	Philadelphia Fed	May	32.5	30.0
FRI 21-May	9:30	Italy	Retail Sales (m/y)	Mar	-0.4/0.1	0.3/1.6

(m) % MoM; (y) % YoY; (q) % QoQ; (a) annualised; (l) Index; (k) thousands; (mn) millions; (bn) billions; (r) revised; (F) final; (P) preliminary; (sa) seasonally-adjusted; (nsa) non-seasonally adjusted; (wda) working day adjusted; (*) CET.

Source: Bank of Spain, Ministry of Economy, Datastream, Bloomberg, Reuters and Santander Central Hispano Bolsa estimates and forecasts.



STRATEGIST CORNER

In this week's Strategist Corner, we focus on the highlights of our latest *Inside Latin America* report, published last week.

SOLID GROWTH CONTINUES . . .

Solid growth allows Latam to face tighter monetary conditions

In this new report we make some minor changes in our Latin America macro scenario. We would highlight the following:

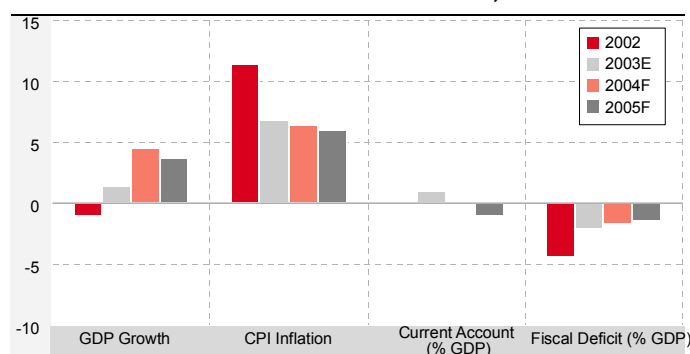
- We have raised our estimate of GDP growth for the region in 2004E from 4.4% to 4.5% due to the increase (from 3.6% to 3.9%) in Colombia's expected economic growth.
- We now expect the regional output for 2005F to increase 3.8%, versus our previous estimate of 4.0%, due to decrease (from 5.9% to 2.9%) in the forecast for Venezuela.
- We are expecting higher inflation in 2004E and 2005F (6.5% and 6.0% vs 6.4% and 5.8%, respectively) due to upgrade in estimates for Brazil, Venezuela and Colombia.
- Changes in the regional aggregates for the fiscal deficit for 2004E from -1.4% to -1.6% and 2005F from -1.3% to -1.5% of GDP as a result of revisions for Colombia.
- Sizeable changes in expected exchange rates. We highlight the new estimates for the Mexican peso, which point to MXN/US\$ of 11.50 for 2004E and 11.80 for 2005F (previously 11.30 for 2004E and 11.50 for 2005F).

Latin America: Economic Forecast

(%)	Real GDP		Inflation		Avg Int Rates		Curr Acc (% GDP)		FX Rate (YE US\$)	
	2004E	2005F	2004E	2005F	2004E	2005F	2004E	2005F	2004E	2005F
Argentina	6.8	3.0	6.0	9.0	3.5	9.6	5.6	0.3	2.9	3.0
Brazil	3.8	4.0	5.8	5.0	14.8	12.0	0.4	-1.3	3.0	3.2
Chile	5.1	4.5	1.4	2.8	2.0	3.4	1.1	-1.1	620	660
Colombia	3.6	3.5	6.0	5.5	8.4	8.9	-1.8	-2.0	2,767	2,961
Mexico	3.2	4.0	3.9	3.5	5.8	6.3	-2.2	-3.1	11.5	11.8
Peru	3.8	3.8	2.5	2.5	9.9	11.0	-1.9	-1.8	3.5	3.5
Venezuela	9.7	5.9	37.9	29.4	24.5	33.0	5.6	3.7	1,920	2,500
Latin America	4.4	4.0	6.4	5.8	NM	NM	0.2	-1.3	NM	NM

Source: Santander Central Hispano Investment estimates and forecasts.

Latin America – Main Economic Indicators, 2002-05F



Source: Santander Central Hispano Investment estimates and forecasts.

ARGENTINA: GROWTH OVERSHADOWED BY ENERGY CRISIS

We are maintaining our estimate of 6.8% real GDP growth for the current year, even though the short-term outlook for economic activity has changed since the release of our last GDP revision due to various factors: (1) the Ministry of Economy revised GDP numbers upwards; (2) stronger-than-expected growth in the opening months of 2004; and (3) the problems relating to the electricity and gas supply.

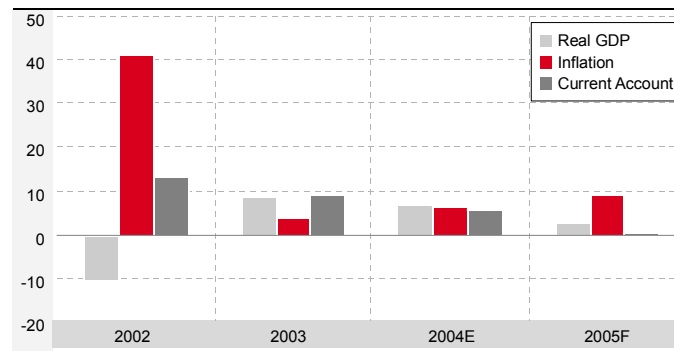
Supply restrictions and energy rationing would trigger a significant slowdown – at least 6pp (difference between current 15% and capacity ceiling at 9%) – in industrial output growth until the end of the year. However, as we were expecting industrial output growth of 10.4%, a 1.4pp downward revision in the manufacturing sector would mean a direct impact of 0.2% on GDP.

Although GDP should decelerate, domestic demand is likely to remain very strong. Monetary conditions are expected to remain loose, consumer confidence is high, average salaries are growing by 10% annually and employment is growing at over 7%.

In terms of inflation, expectations point to a 6% increase for 2004E as a result of the combination of loose monetary policy and cost-push inflation (as industry is producing close to full capacity), changes in relative prices and higher utility rates, especially in the energy sector. However if the energy crisis proves worse than expected, inflation would be likely to accelerate.

The fiscal balance continues to improve, thereby increasing the difficulties faced by the government in its discussions with holders of defaulted debt, as the maximum 3% primary surplus offered by the government as the only viable alternative is questionable.

Argentina – Main Economic Indicators, 2002-05F



Source: Santander Central Hispano Investment estimates and forecasts.

BRAZIL: ROOM TO RECOVER FROM TURBULENCE

In 2003, GDP in Brazil contracted (-0.2%) for the first time since 1992. This figure, although in line with market projections, renewed the debate about growth in 2004. At the moment, we maintain our projection of GDP growth of 3.8% in 2004E and 4.0% in 2005F.

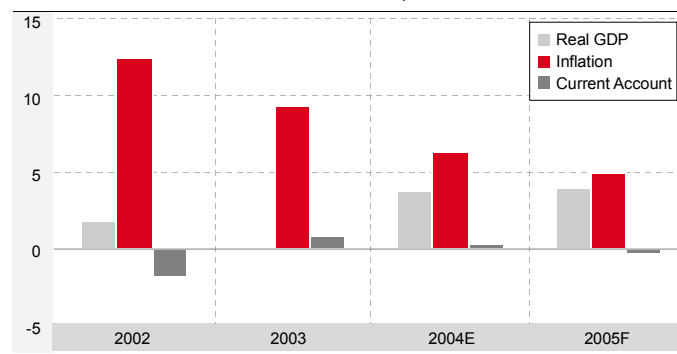
International commodity prices have hit the IGP-M given their heavy weighting in the index. This has a knock-on effect on the IPCA index, which is mostly composed of retail prices. As a result, we have changed our 2004E estimates for the IPCA from 5.8% to 6.5% and for the IGP-M from 5.7% to 8.5%. We are maintaining our projections for 2005F unchanged.

Regarding the FX rate, we reaffirm our R\$/US\$ forecasts of 3.00 for YE2004E and 3.15 for YE2005F. On the fiscal front, the government has fulfilled the targets agreed with the IMF for 1Q04 and is in good shape for the rest of the year.



On the other hand, the **monetary relaxation** represented by reductions in the Selic target interest rates should resume in 2Q04E, regardless of the ongoing acceleration in inflation. The Selic rate is expected to stand at 12.5% and 12.0% at year-end 2004E and 2005F, respectively.

Brazil – Main Economic Indicators, 2002-04F



Source: Santander Central Hispano Investment estimates and forecasts.

MEXICO: WELL POSITIONED TO FACE TIGHTENING CYCLE IN THE US

We maintain our 2004E **real GDP** forecast at 3.2% YoY. For 1Q04E, we estimate that GDP grew 3.3%, supporting our full-year estimate. Good economic activity in the US should benefit Mexico thanks to the recovery of manufacturing exports. We believe that the expected rise in US interest rates will not have a material impact in Mexico, at least in 2004E, as economic growth should largely be driven by private consumption and exports.

However, **employment** started the year weak, but showed an encouraging performance in April. We expect a stronger 2H04E, as the export-oriented sectors regain momentum along with more robust capital spending. For 2005F, we maintain our estimate of 3.7% real GDP growth.

Regarding **interest rates**, expectations of higher inflation and tighter monetary policy in the US have induced higher domestic interest rates in the whole local yield curve. Given that annual inflation should remain above 4.0% until year-end and that US interest rates are likely to continue increasing in coming months, we do not expect local rates to return to previous levels. In our view, the 28-day Cetes benchmark rate will average 6.1% in 2004E, ending the year close to 7.0%.

Recent **exchange volatility**, largely driven by concerns about the future of monetary policy in the US, is likely to have a lasting impact on the Mexican peso. Consequently, we have changed our MXN/US\$ forecasts to 11.50 (from 11.30) for 2004E and to 11.80 (from 11.50) for 2005F.

Mexico – Main Economic Indicators, 2002-05F



Source: Santander Central Hispano Investment estimates and forecasts.

LATAM UPDATE

Market Recap

Indices	13-May	D/D %		MTM %		YTD %	
	Close	Local	US\$	Local	US\$	Local	US\$
Argentina	914	-2.9	-3.0	-24.0	-26.9	-14.8	-14.6
Brazil	18,402	0.4	0.7	-18.6	-24.9	-17.2	-23.6
Chile	1,408	-0.5	-0.3	-4.8	-11.5	-5.1	-12.6
Colombia	2,719	-6.2	-6.5	-20.8	-23.8	16.5	18.0
Mexico	9,784	1.0	0.7	-8.4	-11.5	11.2	7.4
Peru	2,685	-0.1	0.0	-9.3	-9.9	10.3	9.5
Venezuela	24,751	-0.5	-0.5	-8.6	-8.6	11.5	-6.8
Latam (IFC)	977	--	0.9	--	-4.8	--	-8.5

Country	Risks	Int Rates	Trading Vol.			Mkt Cap ¹
			FX	Local	ADR	
Argentina	4703	1.4	2.92	20.9	12.7	11,518
Brazil	758	16.0	3.13	305.0	352.3	106,390
Chile	99	1.3	643	62.8	10.4	49,740
Colombia	559	7.9	2745	5.7	1.2	2,597
Mexico	225	6.9	11.63	162.0	155.8	107,634
Peru	510	8.9	3.49	2.7	8.4	5,746
Venezuela	711	11.2	1918	1.5	2.3	1,930
Latam	--	--	--	560.6	543.1	285,555

SCHI Universe Valuation

	P/BV	P/E		EV/EBITDA		3-yr CAGR	
		04E	05E	04E	05E	Earn	EBITDA
Argentina	1.3	11.3	9.7	5.4	4.7	NM	29%
Brazil	1.1	7.5	6.9	4.4	3.8	37%	18%
Chile	1.6	17.9	16.8	10.0	9.4	39%	9%
Colombia	1.2	8.7	6.5	6.1	5.2	28%	19%
Mexico	1.8	12.3	11.5	6.0	5.6	21%	6%
Peru	1.6	11.8	12.1	8.7	8.5	10%	18%
Venezuela	1.0	15.9	7.0	2.5	1.9	84%	5%
Latin America	1.4	10.3	9.5	5.8	5.2	37%	13%
Cement/Constr	1.5	12.0	11.4	7.2	6.6	28%	4%
Conglomerates	0.9	10.5	8.9	5.5	5.0	30%	1%
Electric Utilities	0.4	9.2	6.1	5.3	4.3	NM	21%
Financial Svcs	1.4	7.2	6.1	NA	NA	19%	NA
Food/Beverage	1.4	11.9	12.4	6.1	5.9	15%	10%
Miscellaneous	2.2	9.7	8.5	2.7	2.0	21%	11%
Oil, Gas/Chem.	1.4	7.0	8.4	5.2	5.6	28%	18%
Pulp & Paper	1.5	20.4	22.4	11.8	12.1	4%	7%
Retail	1.9	16.1	13.4	8.7	7.4	19%	17%
Steel/Mining	2.1	10.3	11.0	7.4	7.2	31%	14%
Telecom/Media	1.9	11.8	9.8	4.4	3.7	85%	13%

Source: Santander Central Hispano Investment.

Macro Recap

(%)	GDP Growth		CPI		Avg Int Rates	
	03E	04F	03E	04F	03E	04F
Argentina	8.4	6.8	3.7	6.0	9.7	3.5
Brazil	-0.2	3.8	9.3	6.3	23.6	14.7
Chile	3.4	5.1	1.1	1.4	2.7	2.0
Colombia	3.7	3.9	6.5	6.3	7.8	8.1
Mexico	1.3	3.2	4.0	4.0	6.2	6.1
Peru	4.0	3.8	2.5	2.5	9.7	9.9
Venezuela	-9.2	9.7	27.1	32.9	25.3	19.0
Latam	1.4	4.5	6.8	6.5	-	-

(1) Market cap in US\$ mn, based solely on our rated universe of 113 Latam companies. 3-yr CAGR refers to 2002-05F. Source: Bloomberg.

Latam

In the past two weeks we have seen very bad market performances due to fears of earlier-than-expected interest rates hikes in the US and very high oil prices (US\$35-40/bbl). In this environment, the large drop in the Latam markets is particularly noteworthy, especially in Argentina and Brazil, which fell by 19% and 16.2%, respectively, in the past two weeks.

Argentina

The most important news was the government's approval of higher taxes on oil and oil product exports as part of its plan to cope with the country's energy crisis (from 20% to 25% in oil exports, from 0% to 5% in petrol, from 5% to 10% in diesel and from 5% to 20% in LPG).

We highlight higher-than-expected inflation (+0.9%) for April, which exceed the March figures.

Brazil

Although the negative sentiment and interest rate fears have been the most noteworthy issues in past two weeks, we would also highlight the good industrial production numbers (+11.9%) for March, which indicate that the economy is recovering.

The IPCA for April beat expectations and was lower than in March (0.37% vs 0.47%), although the core inflation figures suggest that it will be difficult to reduce inflation further.

Mexico

We highlight the good March industrial activity figures published last week. Industrial activity grew by 6.4% YoY, above market consensus and showing a recovery since 4Q03. The industrial production report in March reflected that this activity rose 3.2% YoY in 1Q04, which supports our estimate of 3.3% YoY growth in GDP in 1Q04E.



HOT SPOTS

- The reporting season is coming to a close, with Spanish companies slightly ahead of expectations. However, fears about Latam stemming from an uncertain interest rate environment, skyrocketing oil prices, the changing political environment and regulatory concerns has taken its toll on the Spanish equity market.
- We upgraded **Amadeus** from Underweight to Buy (TP €6.40) after the company reported an excellent set of quarterly results, which seems sustainable in the coming quarters. Moreover, the price war amongst European carriers favours traffic (and booking) growth. After the poor past performance (-3.3% YTD), the inflection point should have been reached.
- After hosting a road-show with **Sogecable** (Buy, TP €46.0), we reinforce our view that high ARPU levels are sustainable, as the company is cleaning up its customer base, and that subscriber growth should resume from September, once this process has been finalised. The stock's recent weak performance (it lost 8.9% of its value in the past two weeks) offers a very good entry point.
- The upcoming IBEX35 revision on June 8 should bring the entry of **Antena 3** (Underweight, TP €37.00) and the exit of **Metrovacesa** (Underweight, TP €30.50), although **Zeltia** (Underweight, TP €4.65) and **Sacyr-Vallehermoso** (Underweight, TP €12.50) are also exit candidates. The entry of **B. Sabadell** (Underweight, TP €15.75), although not completely ruled out, is more likely in the December revision, once the recent increase in trading volumes after the capital increase is confirmed.
- We have upgraded our target price on **Unión Fenosa** (Buy) from €19.50 to €21.00 after the good results, the expected contribution from the investment programme of the past few years (nearly €2bn) and the restructuring process. The latter two matters should deliver growth in the high teens in the years ahead. Moreover, Auna's valuation and the capital gains on its investment in Cepsa could provide further upside for the stock. The stock's recent poor performance (-4.6% last week) creates a buying opportunity.

Main Revisions in Recommendations and Target Prices

Date	Company	Rating		Target Price			2004E EPS		% Chg	Comments
		New	Old	New	Old	Chg	New	Old		
24-Mar-04	Antena 3 TV	UW	UW	37.00	29.00	28	0.41	1.20	-66	Successful restructuring of TV unit and re-rating of peer group
31-Mar-04	NH Hoteles	UW	Buy	9.90	11.30	-12	0.41	0.56	-27	Downgrade in valuation for Spain
01-Apr-04	Iberdrola	Hold	Hold	18.50	16.50	12	1.30	1.33	-2	Upgrade in valuation for CCGT's and wind farms in Spain
01-Apr-04	Telefónica	Hold	Buy	14.50	13.60	7	0.62	0.54	15	Upgrade in TEM's valuation (BellSouth)
07-Apr-04	Portugal Telecom	Hold	Buy	10.20	10.00	2	0.48	0.49	-3	Update in PT Multimedia's valuation and 2003 results
19-Apr-04	Ence	Buy	Buy	28.00	24.50	14	3.05	2.60	17	Upgraded estimates and re-rating of comparables
19-Apr-04	Aldeasa	Buy	UW	27.50	22.80	21	1.73	1.59	9	Updated estimates
23-Apr-04	Indra	Buy	Buy	14.00	13.20	6	0.56	0.56	0	Updated valuation
29-Apr-04	Endesa	Buy	Buy	18.50	17.50	6	1.43	1.43	0	Updated valuation for Auna
05-May-04	Jeronimo Martins	Hold	UW	10.20	8.00	28	0.75	0.75	0	Better outlook
10-May-04	Unión Fenosa	Buy	Buy	21.00	19.50	8	1.29	1.29	0	Update in Auna's valuation
11-May-04	Amadeus	Buy	UW	6.40	5.85	9	0.34	0.31	11	Good 1Q04 results, earnings momentum and positive news flow

Note: UW = Underweight; N/R = Not rated.

Source: Santander Central Hispano Bolsa estimates and forecasts.

IBERIAN RECOMMENDED LIST & MODEL PORTFOLIO

Iberian Large Caps – Santander Central Hispano Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	30-Dec-03	Absolute	Rel to Iberian Large Caps	Relative to IBEX35	-1M	-3M	-6M	YTD
Altadis	09-Jan-04	23.77	22.50	5.6	-0.6	0.2	1.7	-3.5	13.6	9.4
Union Fenosa	12-Feb-04	17.42	14.89	17.0	10.7	11.5	-3.9	4.7	22.5	14.6
Ferrovial	16-May-03	33.35	27.78	20.1	13.8	14.6	-2.2	12.8	29.9	18.3
Endesa	14-Apr-04	15.40	15.25	1.0	-5.3	-4.5	-3.6	-5.9	5.7	-3.9
Repsol	17-Jul-03	17.74	15.46	14.7	8.5	9.3	-5.9	0.4	14.5	9.1
Telefonica Moviles	14-Apr-04	8.96	8.28	8.2	2.0	2.8	-6.6	-8.4	15.6	1.9
SCH Large Caps Model Portfolio	-	135.34	123.14	9.9	3.6	4.4	NA	NA	NA	-4.9
Iberian Large Caps	-	126.54	119.09	6.3	0.0	0.8	NA	NA	NA	8.7
IBEX 35	-	8,159.40	7,737.20	5.5	-0.8	0.0	-5.8	-4.1	7.9	1.7
PSI 20	-	7,513.94	6,739.63	11.5	5.2	6.0	-4.1	-0.4	12.1	8.6
DJ Stoxx 50	-	2,733.72	2,656.07	2.9	-3.3	-2.5	-2.1	-1.1	3.6	0.8

Source: Santander Central Hispano Bolsa estimates and forecasts.

Iberian Small & Mid Caps – Santander Central Hispano Bolsa Recommended List

Companies	Date of Inclusion	Price (€)		Market Performance (%)						
		Current	30-Dec-03	Absolute	Rel to Iberian SMCs	Relative to IBEX35	-1M	-3M	-6M	YTD
Ence	09-Jan-04	23.00	17.15	34.1	21.1	28.7	-3.5	10.4	26.7	27.1
Gamesa	09-Jan-04	35.57	26.09	36.3	23.4	30.9	-4.0	15.0	41.1	28.5
Indra	09-Jan-04	10.83	10.17	6.5	-6.5	1.0	-4.8	-5.6	7.0	2.8
Tubacex	14-Apr-04	1.69	1.42	19.0	6.0	13.6	-1.8	5.8	14.0	14.8
Abengoa	12-Feb-03	7.70	5.77	33.4	20.5	28.0	-1.9	4.5	33.4	23.9
Brisa	30-Sep-03	5.55	5.32	4.3	-8.6	-1.1	-4.3	-2.9	4.8	6.2
SCH Small & Mid Caps Model Portfolio	-	147.93	125.49	17.9	4.9	12.4	NA	NA	NA	-20.4
Iberian Small & Mid Caps	-	135.41	119.86	13.0	0.0	7.5	NA	NA	NA	12.5
IBEX 35	-	8,159.40	7,737.20	5.5	-7.5	0.0	-5.8	-4.1	7.9	1.7
PSI 20	-	7,513.94	6,739.63	11.5	-1.5	6.0	-4.1	-0.4	12.1	8.6
DJ Stoxx SML 200	-	120.50	107.91	11.7	-1.3	6.2	-4.1	-2.3	6.6	7.3

Source: Santander Central Hispano Bolsa estimates and forecasts.



Spain – Santander Central Hispano Bolsa Model Portfolio as of May 13 Close

	Price (€)		Chg (%)	Weighting (%)		
	13-May-04	30-Dec-03		SCHB Model		Difference
				Portfolio	IGBM	
Viscofán	7.68	7.05	8.9	0.15	0.12	0.03
Altadis	24.62	22.50	9.4	0.19	2.22	-2.03
Aldeasa	23.39	20.00	17.0	0.05	0.11	-0.06
Inditex	18.02	16.10	11.9	0.25	3.48	-3.24
Total Consumer Goods	1,047.19	949.53	10.3	0.00	7.91	-7.91
Gamesa	33.52	26.09	28.5	0.05	0.84	-0.80
Tubacex	1.63	1.42	14.8	0.72	0.07	0.66
Arcelor	13.22	13.67	-3.3	0.26	0.39	-0.14
Uralita	8.66	7.38	17.3	0.24	0.18	0.06
Grupo Empresarial Ence	21.80	17.15	27.1	0.06	0.16	-0.10
Total Capital & Intermediate Goods	1,293.03	1,186.58	9.0	0.00	4.51	-4.51
Endesa	14.66	15.25	-3.9	0.42	4.81	-4.40
Iberdrola	16.68	15.67	6.4	0.34	4.20	-3.86
REE	13.53	13.00	4.1	0.05	0.57	-0.52
Repsol YPF	16.86	15.46	9.1	0.46	6.06	-5.59
Enagás	9.18	8.60	6.7	0.13	0.41	-0.28
Total Energy	1,040.13	996.58	4.4	0.00	20.89	-20.89
ACS	39.48	38.70	2.0	0.08	1.45	-1.37
Acciona	50.55	48.25	4.8	0.04	1.00	-0.95
Ferrovial	32.87	27.78	18.3	0.08	1.43	-1.35
Total Construction	1,386.51	1,307.60	6.0	0.00	6.09	-6.09
BBVA	10.69	10.95	-2.4	1.08	11.24	-10.16
Grupo Santander	8.55	9.39	-8.9	1.67	12.64	-10.97
Banco Pastor	24.45	24.34	0.5	0.04	0.41	-0.37
Banco Popular	45.96	47.30	-2.8	0.09	3.24	-3.15
Banesto	9.84	9.50	3.6	0.03	0.24	-0.21
Total Financial Services	924.65	968.64	-4.5	0.00	32.45	-32.45
Telefónica	11.87	11.64	2.0	1.64	17.24	-15.59
Telefónica Mviles	8.44	8.28	1.9	0.36	0.79	-0.44
Indra	10.45	10.17	2.8	0.11	0.48	-0.37
Recoletos	6.30	5.89	7.0	0.22	0.26	-0.04
Total Communications & Info Services	876.30	844.12	3.8	0.00	21.65	-21.65
Aguas de Barcelona	13.43	11.83	13.5	0.13	0.52	-0.40
Iberia	2.37	2.28	3.9	1.06	0.63	0.43
Prosegur	12.87	12.90	-0.2	0.15	0.25	-0.10
Total Market Services	1,246.07	1,125.05	10.8	0.00	6.51	-6.51
TOTAL IGBM	827.10	807.98	2.4	0.00	-	-
SCHB Model Portfolio	114.01	110.13	3.5	-	100.00	-

Source: Santander Central Hispano Bolsa.

ANALYST CERTIFICATION: We, Jesús Gómez, Antonio Espasa, Cristina Bergón and Manuel Preto, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject companies and their securities. We also certify that we have not been promised compensation, either directly or indirectly, for expressing the recommendations in this report.

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Key to Investment Codes¹

Buy	Upside of more than 20%.
Hold	Upside of 15%-20%.
Underweight	Upside of less than 15%.

(1) Target prices set from January to June are for December 31 of the current year. Target prices set from July to December are for December 31 of the following year.

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Santander Central Hispano Bolsa expects to receive or intends to seek compensation for investment banking services from the following companies in the next three months: Antena 3, Cimpor, Iberia, Metrovacesa, Abengoa, B. Sabadell, Grupo Santander, Jazztel, Sogecable, Endesa, REE and Unión Fenosa.

Santander Central Hispano Bolsa has received compensation for investment banking services from the following companies in the past 12 months: Arcelor, Uralita, Acciona, ACS (Dragados), FCC, Ferroviario, Ebro Puleva, Iberia, Sacyr-Vallehermoso, Aguas de Barcelona, Grupo Santander, Enagás, Cepsa, Repsol YPF, Telefónica, Portugal Telecom, Jazztel, Endesa, Iberdrola, REE and Unión Fenosa.

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